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CHARGE: PROG

APPROVED: CDA:TZUNIGA-BROWN
DRAFTED: ECON/COMM:TROLLE-NEW
CLEARED: POL/ECON:JDUBEL

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INFO RUCNCOM/EC CARICOM COLLECTIVE

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STATE FOR WHA/CAR
SANTO DOMINGO FOR USFCS

E.O. 12958: N/A
TAGS: [ECON](#) [BEXP](#) [ETRD](#) [BF](#)
SUBJECT: PM INGRAHAM'S MID-YEAR BUDGET REPORT - HIGH HOPES FOR
STIMULUS PLAN

REF: NASSAU 73

11. SUMMARY: Prime Minister Ingraham presented his mid-year budget report to Parliament on February 25, forecasting a grim outlook for 2009 as The Bahamas deals with "the most challenging global economic environment" seen in many years. Ingraham outlined plans to borrow USD \$200 million from banks to cover costs of an economic stimulus plan and to make up for a shortfall in government revenue. In addition, Ingraham reported a 4.6% decrease in total visitor arrivals in 2008 and a 7.4% drop in hotel occupancy rates as evidence of the negative effects of the global economic downturn in The Bahamas. On a brighter note, the PM cited a USD \$219.4 million increase in construction start-up projects in 2008 and an economic stimulus plan focused on infrastructure projects as hope for a respite from the current economic conditions. End Summary.

GOVERNMENT MAKES PLANS AS TOURISM DECLINES

12. Prime Minister Ingraham presented his mid-year budget report to Parliament on February 25, forecasting a grim outlook for 2009 as The Bahamas deals with "the most challenging global economic environment" seen in many years. Ingraham outlined GCOB plans to borrow USD\$200 million to make up for revenue shortfalls and cover costs of the much talked about economic stimulus plan. While the extra funds will certainly stimulate the economy in the short term, financial analysts are concerned about the increase in national debt caused by the loan. The loan stands to increase the country's debt-to-ratio GDP between 44 and 46 percent, which could raise concerns from the International Monetary Fund (IMF) and other global agencies that the country is over-borrowing. The PM indicated a possible visit by the IMF in late March that would "provide objective and independent assessment on the outlook for the Bahamian economy." The PM also noted plans to shuffle existing government funds among ministries and departments in an effort to not spend "any more in total than was already approved by parliament last May."

13. The PM discussed the tourism decline in 2008, reporting a 4.6% decrease in total visitor arrivals in 2008 and a 7.4% drop in hotel occupancy rates, noting that the decline in U.S. visitor arrivals outweighed any benefits gained by the moderate increase in visitors from Canada and Europe. The PM said the global economic downturn

helped drive air and sea arrivals down by 6.4% and 3.8% respectively in 2008. In addition, the PM said the economy will "likely experience a modest contraction in 2009" amidst swelling inflation and an increase in non-performing loans. Government revenue in import/export duties and excise tax fell below forecast by USD \$39.1 million and USD \$18.1 million respectively. Conversely, there were modest gains over forecast in real property tax by \$7.1 million, immigration fees by \$8.7 million and stamp tax by \$5.4 million. With continued job losses (300 since January 1) and reduced work weeks, the GCOB has tasked the Department of Statistics to conduct an interim Labor Force Survey in order to track current unemployment and underemployment.

¶4. On a brighter note, the PM cited a USD \$219.4 million increase in construction start-up projects and a 24% increase in foreign currency reserves in 2008. The PM emphasized the GCOB's commitment to an economic stimulus plan focusing primarily on infrastructure projects to boost the economy while at the same time maintaining "sound macroeconomic and fiscal fundamentals." Ingraham vowed that the stimulus plan will not add to the overall economic deficit, but rather assist in the short-term.

¶5. Despite positive reports on construction start-up rates in the country, President of the Contractor's Association Stephen Wrinkle told local media the majority of contractors were out of work in ¶2008. Wrinkle said the statistics reported by the PM do not present a clear indication of the industry's performance and that things are worse than they seem.

COMMENT

¶6. The PM continues to exude calm and patience in the wake of the global economic crisis, encouraging Bahamians to hope for a speedy U.S. recovery so that tourists return to the islands. As with other countries dealing with a struggling economy, the GCOB is trying so spend their way out of a recession. Whether the plan works remains to be seen.

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